



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Agriculture

*For the Two Fiscal Years Ended
June 30, 2017*

MAY 2018

LEGISLATIVE AUDIT
DIVISION

17-21

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

May 2018

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Agriculture for the two fiscal years ended June 30, 2017. The report contains an unmodified opinion on the financial schedules of the department and no recommendations. An unmodified opinion means the reader may rely upon the fairness of the information presented.

The department's written response to the audit is included in the audit report at page C-1. We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Agriculture

Benjamin Thomas, Director

Cindy Trimp, Administrator, Central Services Division

Dr. Mark Nechodon, Administrator, Agricultural Sciences Division

Kim Mangold, Deputy Director, Administrator, Agricultural Development
Division

Councils, Committees, and Board

Agriculture Development Council

Board of Hail Insurance

Montana Alfalfa Seed Committee

Organic Commodity Advisory Council

Potato Advisory Committee

Pulse Advisory Committee

Noxious Weed Seed Free Forage Advisory Council

Wheat and Barley Committee

Cherry Advisory Committee

Noxious Weed Management Advisory Council

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Agriculture

For the Two Fiscal Years Ended June 30, 2017

MAY 2018

17-21

REPORT SUMMARY

The Department of Agriculture implemented all three recommendations from the prior audit and received unmodified opinions on its financial schedules. Under a reinsurance contract, the reinsurer assumes a percentage of hail losses and the department cedes a portion of hail policy premiums.

Context

The Department of Agriculture (department) provides services to the agriculture industry to develop markets, measure crop quality through laboratory tests, research improved seed strains and production procedures, license and regulate the sale and use of pesticides, administer laws and regulations to protect groundwater resources, fight noxious weeds, oversee commercial feed and fertilizer laws, and operate the organic certification program.

The Agricultural Development Division (38.22 FTE) focuses on improving markets and methods of production and operates the state's hail insurance program. The Agricultural Sciences Division (61.42 FTE) provides technical and consulting services to consumers and producers, runs the department's analysis laboratory, regulates pesticides, and furnishes grant funds to control weeds. The Central Services Division (15.10 FTE) includes the director's office and supports the work of the other divisions by performing accounting, fiscal management, payroll, purchasing, data processing, and legal services.

The department expended \$24.5 million in the fiscal year ended June 30, 2017. These

expenditures included \$9.8 million in grants of which \$8.5 million came from state sources, \$8 million in personal services expenditures, and \$4 million in operating expenditures. The hail insurance plan paid total losses of \$.96 and \$9.1 million in calendar years 2017 and 2016, respectively, of which the reinsurer paid \$.87 and \$7.8 million.

Results

We found the department implemented recommendations from the prior audit related to classification of assets and liabilities in the hail insurance fund, the development of a control to ensure completeness of a transfer from the general fund to the noxious weed special revenue fund, and compliance with state law concerning industrial hemp rules.

We issued unmodified opinions on the financial schedules of the department for the two fiscal years ended June 30, 2017. An unmodified opinion means the reader may rely on the fairness of the information presented.

For a complete copy of the report (17-21) or for further information, contact the
Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at
<http://leg.mt.gov/audit>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Agriculture (department) for the two fiscal years ended June 30, 2017. The objectives of the audit were to:

- ♦ Obtain an understanding of the department's internal controls to the extent necessary to support our audit of the financial schedules and, if necessary, make recommendations for improvement.
- ♦ Determine whether the department's financial schedules present fairly the results of its operations and changes in fund equity for each of the two fiscal years ended June 30, 2017.
- ♦ Determine whether the department complied with selected laws and regulations.
- ♦ Determine the status of prior audit recommendations.

We addressed these objectives by focusing our audit effort on various revenue and expenditure transactions and the reasonableness and accuracy of these transactions. In addition, we completed testing over the Hail Insurance program and the department's implementation of the new reinsurance agreement. We also reviewed and tested selected control systems and determined compliance with various state laws and regulations.

As a result of our testing, we issued unmodified opinions on the financial schedules of the department for the two years ended June 30, 2017.

Background

Article XII, Section 1 of the Constitution of the State of Montana mandates the legislature provide for a Department of Agriculture and enact laws and provide appropriations to protect, enhance, and develop all agriculture. The department's statutory functions and responsibilities include:

- ♦ Encourage and promote the interests of Montana agriculture.
- ♦ Collect and publish agricultural statistics.
- ♦ Assist, encourage, and promote the organization of farmers' institutes, agricultural societies, fairs, and other exhibitions of agriculture.
- ♦ Adopt standards for grade and other classifications of farm products.
- ♦ Assist in the development of economical and efficient marketing distribution systems.
- ♦ Gather and distribute marketing information concerning supply, demand, price, and movement of farm products.

- ♦ Regulate and protect Montana agricultural activities through the administration of statutes related to agriculture.

The department is organized under the following divisions:

Agricultural Development Division (38.22 FTE): assists Montana's agricultural industry by providing services including market and agribusiness development, Growth Through Agriculture grants and loans, wheat and barley research and marketing, agriculture loans including beginning farmer/rancher loans, hail insurance, grain grading and inspection, agriculture education and outreach, agriculture literacy, and administration of agricultural commodity research and market development programs. The division provides support to the Montana Alfalfa Seed Committee, the Wheat and Barley Committee, the Agricultural Development Council, the Board of Hail Insurance, and advisory committees for cherries, potatoes, and pulse crops.

Agricultural Sciences Division (61.42 FTE): administers agricultural programs relating to the production, manufacturing, certification, and marketing of commodities exported from or distributed in the state. The division administers the Montana Pesticides Act, Crop Insect Detection Act, Vertebrate Pest Management Act, Agricultural Chemical Groundwater Protection Act, Noxious Weed Management Trust Fund Act, Commercial Feed and Fertilizer laws, Organic Certification program, and the department's Chemical Analytical Laboratory. Division personnel provide technical and consultant services to consumers and agricultural producers.

Central Management Division (15.10 FTE): includes the director's office and provides support to all of the programs in the department by performing accounting, fiscal management, payroll, purchasing, property control, data processing, and legal support functions.

Prior Audit Recommendations

The department implemented all three recommendations from the prior audit. Corrective actions included:

- ♦ Changing the classification of assets and liabilities in the hail insurance fund to accurately reflect the provisions of the reinsurance contracts,
- ♦ Developing a procedure to estimate the amount of the statutory transfer to be received from the general fund to the noxious weed fund, and
- ♦ Implementing rules related to industrial hemp in compliance with state law.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Agriculture for each of the fiscal years ended June 30, 2017, and 2016, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An

audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows and inflows of resources, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2017, and June 30, 2016, or changes in financial position for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity of the Department of Agriculture for each of the fiscal years ended June 30, 2017, and 2016, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018, on our consideration of the Department of Agriculture's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 26, 2018

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Private Purpose Trust Fund | Permanent Fund |
|---|------------------|-------------------------------|---------------------------------|--------------------|----------------------------------|-------------------|
| FUND EQUITY: July 1, 2016 | \$ (464,605) | \$ 13,583,035 | \$ (137,305) | \$ 1,306,831 | \$ 664,808 | \$ 11,262,890 |
| ADDITIONS | | | | | | |
| Budgeted Revenues & Transfers-In | 83 | 17,108,613 | 2,378,326 | 1,044,382 | | |
| Nonbudgeted Revenues & Transfers-In | | 276,352 | 5,665 | 3,494 | 4,000 | 95,890 |
| Prior Year Revenues & Transfers-In Adjustments | | (10,131) | 625 | | | |
| Direct Entries to Fund Equity | 1,740,173 | 814,150 | 3,269 | | | |
| Total Additions | <u>1,740,255</u> | <u>18,188,984</u> | <u>2,387,885</u> | <u>1,047,876</u> | <u>4,000</u> | <u>95,890</u> |
| REDUCTIONS | | | | | | |
| Budgeted Expenditures & Transfers-Out | 1,642,962 | 17,801,155 | 2,293,200 | 1,682,117 | | |
| Nonbudgeted Expenditures & Transfers-Out | (701) | 637,959 | | 13,735 | 10,000 | 373,531 |
| Prior Year Expenditures & Transfers-Out Adjustments | (2,500) | 16,278 | (247) | | | |
| Total Reductions | <u>1,639,761</u> | <u>18,455,391</u> | <u>2,292,953</u> | <u>1,695,852</u> | <u>10,000</u> | <u>373,531</u> |
| FUND EQUITY: June 30, 2017 | \$ (364,111) | \$ 13,316,628 | \$ (42,374) | \$ 658,855 | \$ 658,808 | \$ 10,985,249 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-10.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Private Purpose Trust Fund | Permanent Fund |
|---|-----------------|-------------------------------|---------------------------------|--------------------|----------------------------------|-------------------|
| FUND EQUITY: July 1, 2015 | \$ (514,403) | \$ 15,190,358 | \$ (166,275) | \$ 1,009,075 | \$ 674,177 | \$ 10,926,373 |
| ADDITIONS | | | | | | |
| Budgeted Revenues & Transfers-In | 54 | 14,933,546 | 1,798,258 | 1,109,274 | | |
| Nonbudgeted Revenues & Transfers-In | | 229,844 | | 5,776 | 29,500 | 724,337 |
| Prior Year Revenues & Transfers-In Adjustments | | 4,763 | | | | |
| Direct Entries to Fund Equity | 1,695,156 | 617,960 | 13,338 | | | |
| Total Additions | 1,695,209 | 15,786,113 | 1,811,596 | 1,115,050 | 29,500 | 724,337 |
| REDUCTIONS | | | | | | |
| Budgeted Expenditures & Transfers-Out | 1,647,657 | 16,475,996 | 1,782,626 | 826,774 | | |
| Nonbudgeted Expenditures & Transfers-Out | (502) | 808,215 | | (9,480) | 38,869 | 387,819 |
| Prior Year Expenditures & Transfers-Out Adjustments | (1,743) | 109,225 | | | | |
| Total Reductions | 1,645,411 | 17,393,436 | 1,782,626 | 817,294 | 38,869 | 387,819 |
| FUND EQUITY: June 30, 2016 | \$ (464,605) | \$ 13,583,035 | \$ (137,305) | \$ 1,306,831 | \$ 664,808 | \$ 11,262,890 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-10.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| TOTAL REVENUES & TRANSFERS-IN BY CLASS | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Private Purpose Trust Fund | Permanent Fund | Total |
|--|--------------|----------------------------|------------------------------|-----------------|----------------------------|----------------|--------------|
| Licenses and Permits | | \$ 4,057,430 | | | | | \$ 4,057,430 |
| Taxes | | 8,322,714 | \$ 625 | | | | 8,323,338 |
| Charges for Services | 83 | 2,166,724 | | \$ 1,027,386 | | | 3,194,193 |
| Investment Earnings | | 333,465 | | 8,315 | | \$ 95,890 | 437,669 |
| Fines and Forfeits | | 21,383 | | 8,201 | | | 29,583 |
| Sale of Documents, Merchandise and Property | | 15,208 | | | | | 15,208 |
| Grants, Contracts, and Donations | | 28,289 | | | | | 36,263 |
| Transfers-in | | 2,394,135 | 104,537 | 3,974 | \$ 4,000 | | 2,498,672 |
| Capital Asset Sale Proceeds | | 10,727 | 5,665 | | | | 16,392 |
| Federal Indirect Cost Recoveries | | | 138,911 | | | | 138,911 |
| Miscellaneous | | 24,758 | 100 | | | | 24,858 |
| Federal | | | 2,134,778 | | | | 2,134,778 |
| Total Revenues & Transfers-In | 83 | 17,374,834 | 2,384,616 | 1,047,876 | 4,000 | 95,890 | 20,907,297 |
| Less: Nonbudgeted Revenues & Transfers-In | | 276,352 | 5,665 | 3,494 | 4,000 | 95,890 | 385,401 |
| Prior Year Revenues & Transfers-In Adjustments | | (10,131) | 625 | | | | (9,506) |
| Actual Budgeted Revenues & Transfers-In | 83 | 17,108,613 | 2,378,326 | 1,044,382 | 0 | 0 | 20,531,403 |
| Estimated Revenues & Transfers-In | 183 | 17,110,607 | 2,379,739 | 1,044,364 | 0 | 0 | 20,534,892 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | (100) | (1,994) | (1,413) | 18 | 0 | 0 | (3,489) |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | | | |
| Licenses and Permits | | \$ (650) | | | | | \$ (650) |
| Taxes | | (10) | | | | | (10) |
| Charges for Services | | (1,075) | | | | | (1,075) |
| Investment Earnings | | 2,642 | \$ (50) | \$ 18 | | | 2,610 |
| Fines and Forfeits | | (2,042) | | | | | (2,042) |
| Sale of Documents, Merchandise and Property | | (160) | | | | | (160) |
| Grants, Contracts, and Donations | | (750) | | | | | (750) |
| Transfers-in | | (1) | (463) | | | | (464) |
| Miscellaneous | (100) | 52 | (400) | | | | (448) |
| Federal | | | (500) | | | | (500) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | (100) | (1,994) | (1,413) | 18 | 0 | 0 | (3,489) |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-10.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Enterprise Fund | Private Purpose Trust Fund | Permanent Fund | Total |
|---|--------------|----------------------------|------------------------------|-----------------|----------------------------|----------------|--------------|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | | | |
| Licenses and Permits | | \$ 3,816,687 | | | | | \$ 3,816,687 |
| Taxes | | 6,603,857 | | | | | 6,603,857 |
| Charges for Services | | 1,814,545 | | \$ 1,100,520 | | | 2,915,064 |
| Investment Earnings | | 272,538 | | 6,828 | | \$ 724,337 | 1,003,703 |
| Fines and Forfeits | | 28,570 | | 2,839 | | | 31,409 |
| Sale of Documents, Merchandise and Property | | 14,986 | | | | | 14,986 |
| Grants, Contracts, and Donations | | 31,758 | | | | | 66,121 |
| Transfers-in | | 2,534,768 | | 4,863 | \$ 29,500 | | 2,534,768 |
| Capital Asset Sale Proceeds | | 8,760 | | | | | 8,760 |
| Federal Indirect Cost Recoveries | | | | | | | 131,810 |
| Miscellaneous | | | | | | | |
| Federal | \$ 54 | 41,685 | \$ 131,810 | | | | 1,666,448 |
| Total Revenues & Transfers-In | 54 | 15,168,153 | 1,666,448 | 1,115,050 | 29,500 | 724,337 | 18,835,352 |
| Less: Nonbudgeted Revenues & Transfers-In | | 229,844 | 1,798,258 | 5,776 | 29,500 | 724,337 | 989,457 |
| Prior Year Revenues & Transfers-In Adjustments | | 4,763 | | | | | 4,763 |
| Actual Budgeted Revenues & Transfers-In | 54 | 14,933,546 | 1,798,258 | 1,109,274 | 0 | 0 | 17,841,132 |
| Estimated Revenues & Transfers-In | 100 | 14,933,417 | 1,798,308 | 1,109,266 | | | 17,841,091 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ (46) | \$ 130 | \$ (50) | \$ 8 | \$ 0 | \$ 0 | \$ 41 |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | | | |
| Taxes | | \$ 56 | | | | | \$ 56 |
| Investment Earnings | | 265 | (50) | \$ 8 | | | 223 |
| Miscellaneous | \$ (46) | (191) | | | | | (238) |
| Federal | | | (0) | | | | (0) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ (46) | \$ 130 | \$ (50) | \$ 8 | \$ 0 | \$ 0 | \$ 41 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-10.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | Agricultural Development Division | Agricultural Sciences Division | Central Management Division | Total |
|---|---|-----------------------------------|-----------------------------------|----------------------|
| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | | | | |
| Personal Services | | | | |
| Salaries | \$ 1,636,177 | \$ 3,081,543 | \$ 944,891 | \$ 5,662,611 |
| Hourly Wages | 120,463 | 65,195 | | 185,658 |
| Other Compensation | 18,050 | 2,750 | | 20,800 |
| Employee Benefits | 643,118 | 1,202,214 | 322,028 | 2,167,361 |
| Personal Services-Other | (617) | | | (617) |
| Total | <u>2,417,191</u> | <u>4,351,703</u> | <u>1,266,920</u> | <u>8,035,813</u> |
| Operating Expenses | | | | |
| Other Services | 577,147 | 434,123 | 41,282 | 1,052,552 |
| Supplies & Materials | 113,741 | 291,095 | 46,764 | 451,600 |
| Communications | 99,368 | 134,616 | 24,525 | 258,509 |
| Travel | 306,922 | 187,438 | 16,215 | 510,574 |
| Rent | 85,720 | 208,213 | 57,565 | 351,498 |
| Utilities | 11,647 | 38,520 | | 50,167 |
| Repair & Maintenance | 33,721 | 143,358 | 10,429 | 187,508 |
| Other Expenses | 1,023,179 | 110,986 | 22,668 | 1,156,832 |
| Total | <u>2,251,444</u> | <u>1,548,348</u> | <u>219,449</u> | <u>4,019,240</u> |
| Equipment & Intangible Assets | | | | |
| Equipment | 5,325 | 196,265 | 5,722 | 207,313 |
| Total | <u>5,325</u> | <u>196,265</u> | <u>5,722</u> | <u>207,313</u> |
| Grants | | | | |
| From State Sources | 6,475,289 | 2,057,198 | | 8,532,487 |
| From Federal Sources | 972,290 | 281,405 | | 1,253,695 |
| Total | <u>7,447,579</u> | <u>2,338,602</u> | | <u>9,786,181</u> |
| Benefits & Claims | | | | |
| From State Sources | 1,240,439 | | | 1,240,439 |
| From Other Sources | | 10,000 | | 10,000 |
| Total | <u>1,240,439</u> | <u>10,000</u> | | <u>1,250,439</u> |
| Transfers-out | | | | |
| Fund transfers | 139,621 | 428,048 | 270 | 567,939 |
| Intra-Entity Expense | | 569,987 | | 569,987 |
| Total | <u>139,621</u> | <u>998,035</u> | <u>270</u> | <u>1,137,926</u> |
| Post Employment Benefits | | | | |
| Other Post Employment Benefits | 10,226 | | | 10,226 |
| Employer Pension Expense | 20,350 | | | 20,350 |
| Total | <u>30,576</u> | | | <u>30,576</u> |
| Total Expenditures & Transfers-Out | <u>\$ 13,532,175</u> | <u>\$ 9,442,953</u> | <u>\$ 1,492,361</u> | <u>\$ 24,467,489</u> |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | |
| General Fund | \$ 1,293,263 | \$ 222,231 | \$ 124,267 | \$ 1,639,761 |
| State Special Revenue Fund | 9,493,131 | 7,846,614 | 1,115,647 | 18,455,391 |
| Federal Special Revenue Fund | 1,182,949 | 990,577 | 119,427 | 2,292,953 |
| Enterprise Fund | 1,562,832 | | 133,020 | 1,695,852 |
| Private Purpose Trust Fund | | 10,000 | | 10,000 |
| Permanent Fund | | 373,531 | | 373,531 |
| Total Expenditures & Transfers-Out | <u>13,532,175</u> | <u>9,442,953</u> | <u>1,492,361</u> | <u>24,467,489</u> |
| Less: Nonbudgeted Expenditures & Transfers-Out | 51,957 | 982,733 | (167) | 1,034,523 |
| Prior Year Expenditures & Transfers-Out Adjustments | (16,075) | 29,853 | (247) | 13,531 |
| Actual Budgeted Expenditures & Transfers-Out | <u>13,496,293</u> | <u>8,430,367</u> | <u>1,492,774</u> | <u>23,419,434</u> |
| Budget Authority | 22,821,173 | 9,937,921 | 1,706,034 | 34,465,129 |
| Unspent Budget Authority | <u>\$ 9,324,881</u> | <u>\$ 1,507,554</u> | <u>\$ 213,260</u> | <u>\$ 11,045,695</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | |
| General Fund | \$ 3 | \$ 26,883 | \$ 26,591 | \$ 53,476 |
| State Special Revenue Fund | 694,825 | 736,574 | 97,894 | 1,529,292 |
| Federal Special Revenue Fund | 2,078,462 | 744,097 | 68,653 | 2,891,212 |
| Enterprise Fund | 6,551,591 | | 20,123 | 6,571,714 |
| Unspent Budget Authority | <u>\$ 9,324,881</u> | <u>\$ 1,507,554</u> | <u>\$ 213,260</u> | <u>\$ 11,045,695</u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-10.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Agricultural Development Division | Agricultural Sciences Division | Central Management Division | Total |
|---|--------------------------------------|-----------------------------------|--------------------------------|----------------------|
| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | | | | |
| Personal Services | | | | |
| Salaries | \$ 1,571,294 | \$ 2,971,987 | \$ 915,921 | \$ 5,459,202 |
| Hourly Wages | 98,186 | 69,175 | | 167,362 |
| Other Compensation | 19,050 | 2,750 | | 21,800 |
| Employee Benefits | 589,368 | 1,131,882 | 306,248 | 2,027,498 |
| Personal Services-Other | (12,319) | | | (12,319) |
| Total | <u>2,265,579</u> | <u>4,175,794</u> | <u>1,222,169</u> | <u>7,663,543</u> |
| Operating Expenses | | | | |
| Other Services | 717,913 | 409,175 | 52,870 | 1,179,958 |
| Supplies & Materials | 115,442 | 355,271 | 41,801 | 512,514 |
| Communications | 93,594 | 123,270 | 25,833 | 242,698 |
| Travel | 317,413 | 191,088 | 17,512 | 526,012 |
| Rent | 86,762 | 190,217 | 56,421 | 333,400 |
| Utilities | 10,447 | 41,824 | | 52,272 |
| Repair & Maintenance | 54,485 | 102,177 | 13,235 | 169,896 |
| Other Expenses | 1,017,571 | 110,807 | 20,295 | 1,148,673 |
| Total | <u>2,413,628</u> | <u>1,523,828</u> | <u>227,968</u> | <u>4,165,423</u> |
| Equipment & Intangible Assets | | | | |
| Equipment | 90,137 | 90,752 | | 180,889 |
| Total | <u>90,137</u> | <u>90,752</u> | | <u>180,889</u> |
| Grants | | | | |
| From State Sources | 5,319,334 | 2,063,491 | | 7,382,825 |
| From Federal Sources | 626,821 | 305,819 | | 932,639 |
| Total | <u>5,946,155</u> | <u>2,369,309</u> | | <u>8,315,464</u> |
| Benefits & Claims | | | | |
| From State Sources | 393,521 | | | 393,521 |
| From Other Sources | | 38,869 | | 38,869 |
| Total | <u>393,521</u> | <u>38,869</u> | | <u>432,390</u> |
| Transfers-out | | | | |
| Fund transfers | 241,702 | 424,499 | | 666,200 |
| Intra-Entity Expense | | 619,348 | | 619,348 |
| Total | <u>241,702</u> | <u>1,043,846</u> | | <u>1,285,548</u> |
| Post Employment Benefits | | | | |
| Other Post Employment Benefits | 10,425 | | | 10,425 |
| Employer Pension Expense | 11,774 | | | 11,774 |
| Total | <u>22,199</u> | | | <u>22,199</u> |
| Total Expenditures & Transfers-Out | <u>\$ 11,372,920</u> | <u>\$ 9,242,399</u> | <u>\$ 1,450,137</u> | <u>\$ 22,065,456</u> |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | |
| General Fund | \$ 1,287,554 | \$ 236,658 | \$ 121,200 | \$ 1,645,411 |
| State Special Revenue Fund | 8,619,916 | 7,668,560 | 1,104,960 | 17,393,436 |
| Federal Special Revenue Fund | 771,182 | 910,492 | 100,952 | 1,782,626 |
| Enterprise Fund | 694,269 | | 123,026 | 817,294 |
| Private Purpose Trust Fund | | 38,869 | | 38,869 |
| Permanent Fund | | 387,819 | | 387,819 |
| Total Expenditures & Transfers-Out | <u>11,372,920</u> | <u>9,242,399</u> | <u>1,450,137</u> | <u>22,065,456</u> |
| Less: Nonbudgeted Expenditures & Transfers-Out | 145,228 | 1,080,529 | (835) | 1,224,921 |
| Prior Year Expenditures & Transfers-Out Adjustments | 109,228 | (20) | (1,727) | 107,481 |
| Actual Budgeted Expenditures & Transfers-Out | <u>11,118,463</u> | <u>8,161,890</u> | <u>1,452,700</u> | <u>20,733,053</u> |
| Budget Authority | 21,132,312 | 9,068,108 | 1,620,556 | 31,820,976 |
| Unspent Budget Authority | <u>\$ 10,013,849</u> | <u>\$ 906,218</u> | <u>\$ 167,856</u> | <u>\$ 11,087,923</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | |
| General Fund | \$ 43,183 | \$ 7,889 | \$ 55,126 | \$ 106,198 |
| State Special Revenue Fund | 868,497 | 645,909 | 78,727 | 1,593,132 |
| Federal Special Revenue Fund | 1,717,749 | 252,421 | 27,245 | 1,997,415 |
| Enterprise Fund | 7,384,420 | | 6,758 | 7,391,178 |
| Unspent Budget Authority | <u>\$ 10,013,849</u> | <u>\$ 906,218</u> | <u>\$ 167,856</u> | <u>\$ 11,087,923</u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-10.

Department of Agriculture
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2017

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Permanent). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Private-Purpose Trust) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include accounts for research and market development of agricultural commodities such as wheat, barley, and pulse crops; registration of products or licensure of dealers, applicators, or manufacturers and associated inspection or enforcement related to pesticides, commercial fertilizer, animal feed, produce, nurseries, organic operations, and seed; noxious weed management; grain testing and inspection; and economic development assistance, grants, and loans.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include pass-through weed grants, pest surveys, feed inspections, review of private farm applicator restricted use pesticide application records, marketing, specialty crop block grants, and negotiated indirect costs.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund to account for Noxious Weed Management Trust activity.

Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include the Hail Insurance and Beginning Farm Loan Programs.

Fiduciary Fund Category

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. The department uses the private-purpose trust fund to record commercial pesticide applicator certificates of deposit.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund,

resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2016 and June 30, 2017.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, Special Revenue, and Federal Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Hail Insurance

In order to reduce exposure to large losses the hail insurance program entered into a quota-share reinsurance agreement. As a result of this agreement, both Charges for Services and Benefits & Claims From State Sources reflect a percentage of the premiums received and the total losses paid in relation to the percentage of premiums and risk ceded to the reinsurer. Insureds paid \$3,924,561 and \$6,953,974 in hail insurance premiums and the department ceded \$3,532,105 and \$5,910,878 of those premiums in calendar year 2017 and calendar year 2016, respectively. Total losses were \$965,846 and \$9,150,881 and the department ceded \$869,261 and \$7,778,249 of those losses in calendar year 2017 and calendar year 2016, respectively.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Agriculture for each of the fiscal years ended June 30, 2017, and 2016, and the related notes to the financial schedules, and have issued our report thereon dated March 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 26, 2018

DEPARTMENT OF
AGRICULTURE

DEPARTMENT RESPONSE



Steve Bullock
Governor

302 N Roberts, PO Box 200201
Helena, Montana 59620-0201

Ben Thomas
Director

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May 29, 2018

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Maciver:

Thank you for the opportunity to respond to the financial-compliance audit of the Department of Agriculture for the two fiscal years ending June 30, 2017. We have reviewed the financial-compliance audit report which contains no recommendations, therefore, we do not have any comments or exceptions to your report.

I want to take this opportunity to thank you and your staff for the professionalism and fairness shown during the audit. We appreciate the services of your staff while reviewing our procedures, internal controls and accounting practices. We will continue to improve the operations at the Department of Agriculture and we look forward to guidance provided by your office.

We are available to answer any further questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Ben Thomas".

Ben Thomas
Director
Montana Department of Agriculture

RECEIVED

MAY 30 2018

LEGISLATIVE AUDIT DIV.